

The Argument for the Restoration of the Income Tax to a Rate Roughly Equivalent to 60% of the State Income Tax

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By Councilmember Blair G. Ewing

Montgomery County's operating budget is in serious difficulty for next year – the 2004 budget. We have approved an increase in the recordation tax and a development impact tax – both targeted to capital budget. But how to find money for the operating budget is a major issue.

We need more revenue for FY03, but even more for FY04 and thereafter. Council Staff Director Steve Farber's paper on the operating budget noted that personnel costs, making up more than three-quarters of the budget, will continue to rise.

Given current assumptions, the operating budget shows an estimated \$159 million gap, and that does not include the final cost of some labor agreements. This budget was balanced by cutting many important programs and by increasing staff workloads, as well as by putting off action to meet current needs until special or supplemental appropriations can be enacted during FY03. Only two examples involve funding for people with disabilities and for mental health needs.

While the budget gap forecasted for 03 was initially much greater than the one forecast for 04, the gap was closed by an unanticipated revenue increase and by cutting programs. We cannot be sure again of the former and we cannot cut deeper without harming people. We need to think long range.

Further, future (after 05) labor agreements are not included and we have no forecast. Surely labor costs will rise, and we need to provide for people costs. The need for programs for those with low incomes, for the needy, for those most vulnerable, will not decline but will continue to rise, especially if we do not meet those needs now. Revenues are not increasing as fast as the need.

The approved budget is not even a status quo budget, in almost every way. It does not provide for even one additional bus, it has a shortfall in health, no increases in police, and cuts in virtually every program. This can only get worse if we do not have more revenue. Certainly more development will not pay for it.

The income tax is fairer than other options, such as the property tax. While surely not as graduated as it ought to be, it is far more broad-based. It does not cost anyone very much to make this change. The estimate is about \$75 for an average family per year. And it would produce about \$8 million next year and about \$25 to \$30 million thereafter. It is reliable and not volatile in the same degree as other taxes.

As for tax burden, state and Federal income taxes are declining. This increase is minor and the total income tax burden is certain to be less overall. This is appropriate, given that both state and Federal support for many local government functions is less than adequate. That is certainly true in the field of public health.

Finally, it appears that the property tax falls disproportionately on residential property in the county, so a property tax increase will be paid mostly by homeowners and not nearly so much by commercial property.

I believe we need to act now to raise the income tax. It is fairer, it falls more broadly on all taxpayers, and it is needed to meet service costs and balance future budgets. It is a longer range solution to our problems.